MEXICO

TRADE SUMMARY

The U.S. trade deficit with Mexico was $45.1 billion in 2004, an increase of $4.4 billion from $40.6 billion in 2003. U.S. goods exports in 2004 were $110.8 billion, up 13.7 percent from the previous year. Corresponding U.S. imports from Mexico were $155.8 billion, up 12.9 percent. Mexico is currently the 2nd largest export market for U.S. goods.

U.S. exports of private commercial services (i.e., excluding military and government) to Mexico were $15.9 billion in 2003 (latest data available), and U.S. imports were $11.7 billion. Sales of services in Mexico by majority U.S.-owned affiliates were $8.1 billion in 2002 (latest data available), while sales of services in the United States by majority Mexico-owned firms were $900 million.

Mexico has signed a total of 11 free trade agreements with 43 countries, including the European Union, Chile, the five economies of the Central American Common Market, Israel, and Uruguay. Mexico also signed an Economic Partnership Agreement with Japan in November 2004.

The stock of U.S. foreign direct investment (FDI) in Mexico in 2003 was $61.5 billion, up from $55.7 billion in 2002. U.S. FDI in Mexico is concentrated largely in the manufacturing and banking sectors.

North American Free Trade Agreement

The North American Free Trade Agreement (NAFTA), signed by the United States, Canada, and Mexico, entered into force on January 1, 1994. The NAFTA progressively eliminates tariffs and non-tariff barriers to trade in goods; improves access for services trade; establishes rules regarding investment in the territory of a Party by an investor of another Party; strengthens protection of intellectual property rights; and creates an effective dispute settlement mechanism. The NAFTA is accompanied by supplemental agreements that provide for cooperation to enhance and enforce labor standards and to encourage environmentally friendly practices and bolster environmental protection in North America.

IMPORT POLICIES

Tariffs and Market Access

Under the terms of the NAFTA, Mexico eliminated tariffs on all remaining industrial and most agricultural products imported from the United States on January 1, 2003. Remaining tariffs and non-tariff restrictions on corn, sugar, milk powder, orange juice, and dried beans will be phased out by January 1, 2008. The safeguard action for U.S. chicken leg quarters expires at the end of

2007 (see section on agriculture, below).

Trade growth in agricultural products has in fact been fairly balanced since the NAFTA was implemented, with U.S. exports to Mexico increasing by 135 percent from 1993 to 2004, and U.S. imports from Mexico increasing by 167 percent. The numbers are less balanced, however, when considering nonagricultural trade. U.S. imports from Mexico grew 299 percent, compared with U.S. export growth of 169 percent from 1993 to 2004.

A number of U.S. exports, both agricultural and non-agricultural, are subject to antidumping duties that limit access to the Mexican market. Products subject to these duties currently include beef, rice, liquid caustic soda, ammonium sulfate, and polyvinyl chloride, bond paper, and corrugated rods. Mexico also initiated antidumping investigations of crystal polystyrene, epoxidized soy oil, and pork legs (hams), industrial fatty acids, stearic acid, and welded carbon steel pipe and tube in 2004.

On January 1, 2002, Mexico published amendments to its Income Tax Law that treat small retailers selling mostly imported goods differently than other small companies by taking away from them the option of using an alternative tax reporting and payment system. The alternative system, available to other “small contributors”, is administratively simpler and potentially results in a lower tax burden, depending on the specific financial circumstances of the company.

Agricultural Products

The United States exported $8.5 billion in agricultural products to Mexico in 2004, a new record. Mexico is the United States’ third largest agricultural market. Under NAFTA, Mexico has eliminated nearly all import tariffs and tariff-rate quotas on agricultural products from the United States. As of January 1, 2004, the only U.S. agricultural exports subject to tariffs or tariff-rate quotas are corn, sugar, dry beans, orange juice, chicken leg quarters, and milk powder.

During the past year, Mexico’s Secretariat of Economy (SECON) continued antidumping duties on beef, rice, and apples and modified existing duties on beef, while eliminating antidumping duties on live hogs. SECON terminated its antidumping investigation of U.S. pork, finding no cause for continuing the investigation, yet subsequently self-initiated an antidumping investigation of U.S. hams. Concerns about Mexico’s methodology for determining injury to the Mexican domestic industry and for calculating dumping margins in the rice case led the United States to challenge the antidumping measure at the WTO. The panel report in that case is expected in early 2005. With respect to the antidumping investigation on beef, a NAFTA Chapter 19 panel ruled that SECON did not sufficiently demonstrate that U.S. beef imports had damaged Mexico’s beef industry. In response, SECON eliminated the seven cent per kilo antidumping duty on U.S. beef carcasses and lifted the requirement that all beef must be aged less than 30 days and graded Choice or Select to qualify for the lower company specific rates. The NAFTA panel must now approve the changes or recommend additional changes. Mexican policies in this area have reduced the number of U.S. suppliers and altered product trading patterns. Industry believes that $100 million to $500 million in revenue is lost each year due to antidumping duties in the beef sector.

On December 29, 2004, the Ministry of Economy announced it would suspend the 46.58 percent antidumping duty on red and golden delicious apples from the United States and implement a new reference price agreement with U.S. exporters in the Northwest, effective February 28, 2005. However, implementation did not occur and the duties remain in place. The United States takes very seriously the commitment the Mexican Government made after two years of intense consultations and expects the unjustified duties to be removed or replace with the reference price agreement very soon.

In July 2003, Mexico imposed a NAFTA safeguard on U.S. chicken leg quarters that will remain in effect until December 31, 2007. The safeguard takes the form of a tariff-rate quota (TRQ) on chicken leg quarters. The TRQ preserves market access for U.S. exporters at levels achieved in recent years. Pursuant to the NAFTA, Mexico agreed to provide compensation to the United States, including a commitment not to impose any additional import restrictions on U.S. poultry products and to eliminate certain sanitary restrictions on U.S. poultry products.

On December 31, 2001, the Mexican Congress approved a 20 percent tax on certain beverages sweetened with ingredients other than cane sugar, including high-fructose corn syrup (HFCS). Industry estimates that the cost of this trade barrier to the United States is roughly $200 million in U.S. corn and HFCS exports and $800 million in U.S. investment in Mexico since NAFTA's implementation in 1994. HFCS sales fell dramatically below prior volumes, as bottling companies in Mexico switched to cane sugar. Although temporarily suspended by the Fox Administration, the Mexican Supreme Court ruled this action unconstitutional and reinstated the tax on July 12, 2002. The tax has been renewed each year by the Mexican Congress, including for 2005. On March 16, 2004, the United States requested consultations under the dispute settlement procedures of the WTO, and on July 6, 2004 a WTO panel was established to review the dispute. The panel's final decision is expected by the end of May 2005.

For 2004 and 2005, the Mexican Congress approved a measure stating that SECON could not lower the NAFTA out-of-quota tariff rate in order to facilitate the importation of white corn beyond the volumes provided for within the tariff-rate quota.

Sanitary and Phytosanitary Issues

In recent years, Mexican sanitary and phytosanitary standards have created barriers to exports of certain U.S. agricultural goods, including grains, seed products, apples, stone fruit, pork, beef, poultry, citrus, wood and wood products, dry beans, avocados, and eggs. In addition, procedural requirements regarding sanitary and phytosanitary inspections at the port-of-entry do not always reflect agreements reached between U.S. Department of Agriculture officials and the Mexican Secretariat of Agriculture, resulting in unnecessary delays at the border points of entry, seaports, and airports. In 2004, significant quantities of imports were rejected or delayed at the border.

Disagreements over the prevalence and nature of certain pests and certain administrative requirements led to a delay in the implementation of the stone fruit protocol in 2003 and 2004, which provides for a systems approach to prevent transmission of quarantinable pests. Because of this delay in implementing the systems approach protocol, the U.S. industry has had to revert to more costly fumigation procedures. While the protocol for 2005 has been concluded well in advance of the shipping season, U.S. industry maintains that Mexico is using unscientific phytosanitary concerns that are making it increasingly difficult to arrive at a system that is cost effective for U.S. stone fruit exporters. While originally scheduled for termination in 2001, tThe last Mexican inspector was finally withdrawn from the State of Washington apple inspection program in 2004. Mexican plant quarantine authorities have notified APHIS of their intent to add new pests to their lists of quarantine concerns, even though no quarantine pests have been detected in over 52 million boxes of apples the United States has shipped to Mexico since 1993. USTR and USDA have raised these issues several times over the last year.

Despite the lack of a protocol for returning live animals and adequate inspection facilities in Mexico, in June 2004, the Mexican Congress approved a measure requiring that the inspection of imported live animals take place in Mexico. The lack of adequate inspection facilities has hampered the importation of live animals. Similarly, the Mexican Congress approved a measure for 2005 that would charge an inspection fee of approximately $26 per ton for the inspection of all imported animal products. SECON is reviewing the legality of this provision. Industry estimates that these fees would add $40 million annually to the cost of U.S. meat and animal product sold in Mexico. The Fox Administration subsequently determined the tax was illegal and is not collectingd such fees.

Mexico banned imports of U.S. beef in December 2003 following the detection of one positive case of Bovine Spongiform Encephalopathy (BSE) in the State of Washington. In March 2004, Mexico announced that it would accept U.S. boneless beef from cattle under 30 months of age, and it subsequently lifted restrictions on a number of offals and processed boneless beef products. Currently, bans or restrictions remain on bone-in beef, live cattle, certain offals and processed products, and pet food. As of the publication of this report, the United States is taking aggressive action and working intensively to fully re-open the market as quickly as possible. In addition, the United States is working in the International Organization for Epizootics to revise international standards on BSE to reflect current scientific knowledge.

Despite the eradication of Low Pathogenic Avian Influenza in nine U.S. states, Mexico continues to restrict imports of certain poultry products from these states, chiefly raw poultry for direct consumption.

Administrative Procedures and Customs Practices

U.S. exporters continue to be concerned about Mexican customs administration procedures, including insufficient prior notification of procedural changes; inconsistent interpretation of regulatory requirements at different border posts; and uneven enforcement of Mexican standards and labeling rules. There have been relatively few specific complaints, however, and Mexican Customs has been putting procedures in place to address issues of non-uniformity at border ports of entry. Agricultural exporters note that Mexican inspection and clearance procedures for some agricultural goods are long, burdensome, non-transparent and unreliable. Customs procedures for express packages continue to be burdensome, though Mexico has raised the *de minimis* level from $1 to $50. However, Mexican regulations still hold the courier 100 percent liable for the contents of shipments.

To be eligible to import well over 400 different items, including agricultural products, textiles, chemicals, electronics and auto parts, Mexican importers must apply to the Secretariat of Finance and Public Credit (SHCP) and be listed on a special industry sector registry. U.S. exporters complain that the registry requirement sometimes causes costly customs clearance delays when new products are added to the list of subject items with immediate effect, thereby denying importers sufficient notice to apply. They also report that certain importers have been summarily dropped from the registry without prior notice or subsequent explanation, effectively preventing U.S. exporters from shipping goods to Mexico.

Mexico requires import licenses for a number of commercially sensitive products. It also uses estimated prices for customs valuation of a wide range of products imported from the United States and other countries, including apples, milled rice, beer, distilled spirits, chemicals, wood, paper and paperboard products, textiles, apparel, toys, tools, and appliances.

Since October 2000, the Mexican government has imposed a burdensome guarantee system for goods subject to estimated prices. Importers cannot post bonds to guarantee the difference in duties and taxes if the declared value of an entering good is less than the official estimated price. Instead they must deposit the difference in cash at a designated Mexican financial institution or arrange one of two alternative sureties (a trust or line of credit). The cash deposit is not returned for six months, and then only if the Mexican government has not initiated an investigation and if the supplier in the country of exportation has provided an invoice certified by its local chamber of commerce. Mexican banks charge as much as $1,500 to open an account for this purpose and $250 for each transaction, making this a burdensome and costly regulation for businesses on both sides of the border. The governments of the United States and Mexico are discussing an exchange of customs data that would result in the elimination of the estimated pricing regime.

In addition, U.S. exporters have expressed concerns regarding post-importation verification practices implemented by Mexican Customs and administered by private entities. Mexico has indicated that all information will remain confidential and that verifications are intended to validate the accuracy of all information presented to Mexican Customs. However, U.S. firms remain apprehensive about sharing business confidential information with a third-party. The U.S. Government continues to monitor the situation.

U.S. firms also have raised concerns with a Mexican regulation that requires certain textile products to include detailed information regarding their specifications on customs documentation. In particular, the regulation asks for proprietary information and results in increased paperwork for the importer. Moreover, it also appears that the requirements for the regulation can change suddenly and are not applied uniformly throughout Mexican ports of entry.

STANDARDS, TESTING, LABELING AND CERTIFICATION

Under NAFTA, Mexico was required, starting January 1, 1998, to recognize conformity assessment bodies in the United States and Canada on terms no less favorable than those applied in Mexico. To date, no U.S. certification bodies have been recognized by Mexico. The United States is still awaiting action on a 2003 request by a U.S. certification body to be recognized in Mexico. On January 21, 2005, Mexico published the *convocatoria* (formal announcement) in the *Diario Oficial* stating that one or more government agencies are requesting certification organizations for the standards involved. While the publication of the convocatoria is positive, no U.S. certification bodies have yet been recognized by Mexico.

U.S. exporters have alleged that certain regulations are enforced more strictly for imports than for domestically-produced products, and that there has been inconsistent treatment for the same goods at various ports of entry. Mexico has over 700 mandatory technical regulations called *normas oficiales mexicanas* (NOMs) issued by a number of different agencies, each with its own compliance procedures. Only the Secretariat of Economy and the Secretariat of Agriculture (for a limited sub-set of its NOMs) have published their procedures. After discussions with the U.S. government, the Secretariat of Economy implemented procedures in 2000 designed to reduce the cost of exports to Mexico by allowing U.S. manufacturers and exporters to hold title to a NOM certificate of compliance (an official document certifying that a particular good complies with applicable standards) and assign it to as many distributors in Mexico as needed to cover the market. Previously, only Mexican producers or importers were allowed to obtain a NOM certificate, which posed a problem for U.S. firms using multiple importers, because each importer was required to pay a substantial fee to have the exact same product tested at a Mexican laboratory every year. Moreover, while the new procedures were implemented with the alleged goal of addressing redundant testing requirements, U.S. firms contend that the certification bodies have increased the cost of certification by, among other things, charging for certificates to be assigned to other regulatory entities. In addition, key Mexican ministries such as Health, Energy and Labor have yet to publish their respective product testing procedures.

The United States is Mexico's largest export market for tequila, accounting for 50 percent of Mexican production. In 2003, the United States imported over $402 million of tequila. Approximately 77 percent of the total volume was tequila in bulk form. In August 2003, the Mexican government, citing the need to ensure the quality of Mexican tequila, had considered amending the official standard for tequila to require that tequila be "bottled at the source" in Mexico. Currently, the Mexican standard requires that only 100 percent agave tequila be bottled at the source. Tequila that is made from less than 100 agave tequila can be sold and exported in bulk form under the current official standard. On November 15, 2004, Mexico published a new draft standard that did not include a requirement that all tequila be bottled in Mexico, but which did propose an onerous registration and inspection system for all bottlers. Government officials from the NAFTA partners have been engaged in discussions regarding aspects of trade in tequila and hope to reach an agreement in the near future.

U.S. exporters of vitamins, nutritional supplements, and herbal remedies have reported that Mexico's revised health law regulations are discriminatory and arbitrarily impede access to the Mexican market. While Mexico has stated that it is looking at ways to address these concerns consistent with its WTO and NAFTA obligations, the U.S. Government has thus far seen no progress. According to industry's estimates, the cost of this alleged trade barrier to the United States is over $500 million annually.

GOVERNMENT PROCUREMENT

Mexico's efforts to make its government procurement regime more transparent through policies and technologies have resulted in increased competition as well as savings for the government. The Mexican government has established several "e-government" Internet sites to increase transparency of government processes and establish guidelines for the conduct of government officials. "Compranet" allows on-line processing of government procurement and contracting. According to the Mexican Secretariat of Public Administration, 321 government offices processed 3,800 electronic transactions for procurement through Compranet in 2002.

The NAFTA Government Procurement Chapter allowed Mexico to cover only a temporary, narrow list of services, based on the requirement that it would develop a permanent list of excluded services by July 1, 1995. After several years of discussion, the United States, Canada and Mexico reached agreement on a list of excluded services in December 2004. Mexico must now take the necessary steps to implement its negative list of services.

NAFTA provides for the gradual increase of U.S. suppliers' access to purchases by the two largest Mexican procuring authorities, Mexico's parastatal petroleum and electricity monopolies, PEMEX and the Federal Electricity Commission (CFE), respectively. As of January 1, 2003, NAFTA limits the total value of contracts that PEMEX and CFE may remove from coverage under NAFTA to $352 million per year.The United States has not been able to confirm whether this commitment has been properly implemented, as Mexico has not provided the statistics called for under NAFTA. Starting in December 2005, Starting in December 2005, Mexico will send to the United States and Canada notice of the set-aside calculation, along with the methodology used in the calculation.

INTELLECTUAL PROPERTY RIGHTS (IPR) PROTECTION

Under NAFTA and the WTO Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS), Mexico is obligated to implement certain standards for the protection of intellectual property and procedures to address infringement, including copyright piracy and trademark counterfeiting. Despite a fairly comprehensive set of IPR laws and an increase in the number of seizures and arrests in 2003, the extent of IPR violations in Mexico remains dramatic. Monetary sanctions and other penalties, when imposed, are minimal and therefore generally ineffective in deterring these illegal activities. Increasing organized crime and violence impair enforcement actions and deter rightholders from attempting to enforce their rights under Mexican law. The United States remains concerned about the continuing high levels of piracy and counterfeiting in Mexico and closely monitors how the Mexican Government is addressing these problems. Mexico was taken off the Special 301 Watch List in 2000, but put back on in 2003 and remained on the Watch List in 2004 due to enforcement deficiencies.

Copyright Protection

Copyright piracy remains a major problem in Mexico, with U.S. industry loss estimates growing each year. Although enforcement efforts by the Mexican Government seem to be improving, piracy levels continue to rise, resulting in closures of legitimate copyright-related businesses, according to industry sources. Pirated and counterfeit sound and motion picture recordings are widely available throughout Mexico, where piracy has shifted from traditional formats to optical discs (CD, DVD, CD-ROM). The International Intellectual Property Alliance (IIPA) estimates that trade losses due to copyright piracy in Mexico totaled $870.2 million in 2004. That year, music piracy represented 60 percent of the total market. Industry estimates that the business software piracy level was 65 percent in 2004.

In July 2003, the Mexican Congress amended the Mexican copyright law. These amendments fail to address the comprehensive reforms needed by Mexico to: (1) effectively implement the obligations of the WIPO Copyright Treaty and the WIPO Performances and Phonograms Treaty (Mexico is a party to both agreements); and (2) correct existing incompatibilities in the law with Mexico's obligations under the NAFTA IPR Chapter and the WTO TRIPS Agreement. Implementing regulations that Mexico has indicated would address these concerns were to have been published by the end of October 2003 but as of March 2005 have not yet been made available. The United States has been urging Mexico to meet its various obligations by issuing satisfactory implementing regulations.

Mexican law enforcement agencies have conducted thousands of piracy raids. In 2003, the Attorney General's Office created an IPR enforcement unit, which combines federal prosecutors and police to make the enforcement regime more effective and efficient. Industry representatives report that raids against pirate and counterfeit operations have improved from 2003 and that there has been improved access to prosecutors. Despite increased raids and seizures of pirated and counterfeit material, only 24 of the 1087 pirates and counterfeiters who were arrested in 2003 and 2004 received sentences greater than one year, thus undercutting the deterrent effect of the raids and arrests. Very few IPR violations result in prison terms. As a result, pirates and counterfeiters are often released and return to their illegal activities. Well-known markets selling pirated and counterfeit goods, such as Tepito in Mexico City, remain ubiquitous.

Patent, Trademark, Pharmaceutical and Agricultural Chemical Protection

Patents and trademarks are under the jurisdiction of the Mexican Institute of Industrial Property (IMPI), an independent agency that operates under the auspices of the Secretariat of Economy. Some U.S. trademark holders have encountered difficulties in enjoining former subsidiaries and franchisees from continued but unauthorized use of their trademarks.

U.S. companies holding trademarks in Mexico have cited problems with trademark enforcement and administration. When counterfeit items are discovered, injunctions against trademark violators are often unenforceable and are consistently challenged before the courts. Although federal administrative actions are supposed to be completed within four months, actions related to trademark enforcement often take as long as 18 months. The time can be lengthened by jurisdictional and procedural disputes within the Mexican government, as well as by internal coordination problems within IMPI. Trademark applications in Mexico are not subject to opposition. Registrations are issued and can only be canceled after registration. On average, it takes two and a half years to cancel a trademark registration, and the registrant is allowed to continue using the mark for one year following cancellation.

U.S. pharmaceutical and agricultural/chemical companies are concerned about the lack of coordination between IMPI and other Mexican agencies with regard to government procurement of copies of patented pharmaceuticals. In 2003, the Mexican Ministry of Health agreed that starting with purchases scheduled for delivery on January 1, 2003, IMSS (Mexican Social Security Institute) and possibly ISSTE (Social Security Institute for Government Workers) would purchase only patented products where a patent already exists in Mexico.

In September 2003, the Ministries of Health and Economy implemented a Presidential decree that requires applicants for safety and health registrations to show proof of patent and proof that test data was obtained in a legitimate matter. According to the regulation, failure to present proof of patent and test data will result in denial of the registration. Also, if a company is caught providing false information, it can now be subject to both civil and criminal proceedings. It is hoped that compliance with this decree will help to eliminate copies of patented pharmaceuticals from the supply chain for IMSS and ISSTE.

While this measure is a positive development, the regulation limits linkage to product patents only. Furthermore, U.S. industry reports that the Ministry of Health continues to provide local companies authorization to market unauthorized copies of patented pharmaceutical products.

Border Enforcement of IPR

NAFTA Article 1718 and Article 51 of the TRIPS Agreement obligate Mexico to allow U.S. intellectual property rights holders to apply to Mexican authorities for suspension of release of goods with counterfeit trademarks or pirated copyright goods. Intellectual property rights owners seeking to use the procedure must obtain an order from IMPI that directs customs officials to detain the merchandise. Companies requesting such actions generally report positive outcomes. However, U.S. industry has sought increased cooperation and communication between IMPI and Mexican Customs in order to prevent the release of counterfeit goods into the Mexican market.

SERVICES BARRIERS

Telecommunications

The recent conclusion of a WTO dispute settlement proceeding brought by the United States has prompted much-needed reform to Mexico's international telecommunications rules. This is expected to bring benefits worth tens of millions of dollars to U.S. consumers and telecommunications companies, including families keeping touch across the border. Pursuant to an agreement reached with the United States regarding implementation of the recommendations included in the WTO panel report adopted on June 1, 2004, Mexico agreed to remove the provisions of Mexican Law which had created the uniform tariff and proportional return systems and the requirement that the carrier with the greatest proportion of outgoing traffic to a country negotiate the settlement rate on behalf of all Mexican carriers. Mexico also committed to allow the introduction of resale-based international telecommunications services in Mexico by July 2005. Mexico, however, continues to prevent foreign carriers from using leased lines to bring calls directly into the domestic network.

More broadly, Mexico's former state-owned telecommunications monopoly (Telmex) continues to dominate Mexico's telecom sector. Competition in the sector has been hampered by the inability of Mexico's telecommunications regulator, the Federal Telecommunications Commission (COFETEL) to enforce its own regulatory findings. Enforcement authority resides with the Secretariat of Communications and Transportation (SCT), which has been slow to act against Telmex. Telmex competitors complain of inaction by both COFETEL and SCT in resolving disputes, resulting in many cases lingering for months or years without resolution. Failure to ensure non-discriminatory quality of service for interconnection, highlighted by a COFETEL report documenting the inferior quality Telmex provided to competitors, is particularly troubling. In most cases where the government has taken action, Telmex has successfully used court-ordered injunctions to prevent enforcement against it. In addition, lawmakers have shelved a telecommunications reform bill proposed by President Vicente Fox to increase COFETEL''s independence and regulatory powers.

COFETEL recently proposed a rule that would switch mobile phone payment systems to a "calling party pays" system, thereby requiring those placing international and domestic long-distance calls to mobile phones in Mexico to pay for the interconnection and termination of those calls. Although the proposed rule encourages long-distance and local companies to negotiate prices, industry sources expect that COFETEL will ultimately establish the new rates. The proposed rule could result in significant additional costs for U.S. companies and consumers.

Uncertainty regarding the treatment of Voice over Internet Protocol (VOIP) services in Mexico is also cause for concern. Telmex has reportedly advocated prohibiting cable TV providers from providing VOIP until Telmex is permitted to participate in the video market. Irrespective of the merits of Telmex's ambitions in the video market, restrictions on the ability of any entity, foreign or domestic, to supply VOIP appears inappropriate and would only serve to limit competition in voice services.

In the satellite sector, preferences accorded to Mexican satellite service suppliers remain a significant barrier and thwart access by Mexican consumers and businesses to cost-effective technology U.S. providers could supply. In particular, the United States has urged Mexico to eliminate the unreasonable requirement that a concession be required to supply cross-border satellite services, particularly since only Mexican entities are eligible for such concessions.

INVESTMENT BARRIERS

Ownership Reservations

Mexico's Constitution and Foreign Investment Law of 1992 reserve ownership of certain sectors, such as oil and gas extraction, to the state; other laws limit activities (e.g., forestry exploitation) to Mexican nationals. In addition, only Mexican nationals may own gasoline stations. Investment restrictions prohibit foreign ownership of residential real property within 50 kilometers of the nation's coasts and 100 kilometers of its borders. However, foreigners may acquire the effective use of residential property in the restricted zones through trusts administered by Mexican banks. A national foreign investment commission reviews foreign investment in Mexico's restricted sectors, as well as investments of above 49 percent in non-restricted sectors with a threshold value of above $150 million, as adjusted each year for growth in Mexico's nominal GDP. These restrictions are incorporated into the NAFTA.